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Vyta Corp  
Form 10-Q  
February 27, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

-----  
FORM 10Q  
-----

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2008

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number : 33-19598-D

VYTA CORP

-----  
(Exact name of registrant as specified in its charter)

NEVADA

84-0992908

-----  
(State of Incorporation)

-----  
(IRS Employer ID Number)

1630 WELTON STREET, SUITE 300, DENVER, COLORADO 80202

-----  
(Address of principal executive offices)

303-592-1010

-----  
(Registrant's Telephone number)

370 17TH STREET, SUITE 3640, DENVER, COLORADO 80202

-----  
(Former name, former address and formal fiscal year,  
if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [ X ]

Indicate the number of share outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of February 23, 2009, there were 45,663,178 shares of the registrant's common stock issued and outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

VYTA CORP AND SUBSIDIARIES  
Condensed Consolidated Balance Sheets

	December (Unaud -----
ASSETS	
Current assets:	
Cash and cash equivalents	\$
Inventory	1
Prepaid expenses and other	
Total current assets	----- 1 -----
Property and equipment:	
Office equipment and furniture	1
Plant and production equipment	8
Less accumulated depreciation	(6)
	----- 2 -----
Other assets:	
Deposit	
Asset under capital lease, net	8
	----- 8 -----
Total assets	\$ 1,2 =====

(Continued)

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VYTA CORP AND SUBSIDIARIES  
Condensed Consolidated Balance Sheets  
(Continued)

December  
(Unaud  
-----

LIABILITIES AND SHAREHOLDERS' EQUITY DEFICIENCY

Current liabilities:

Bank overdraft	\$	
Accounts payable		2
Advances payable, related parties (Note 5)		1
Advance payable (Note 5)		1
Accrued expenses		1
Short term lease obligations (Note 6)		
Short term consulting obligation, net of discount (Note 4)		
Obligation to unconsolidated investee (Notes 2 and 3)		
		-----
Total current liabilities		6
		-----

Long term liabilities:

Consulting obligation, net of discount (Note 4)		2
Long term lease obligation (Note 6)		8
		-----
Total long term liabilities		1,0
		-----

Commitments and contingencies (Note 6)

Shareholders' equity deficiency (Note 5):

Preferred stock; \$0.0001 par value; 5,000,000 shares authorized; Series A, 8%; deemed par value \$1.00 per share; 500,000 shares issued and outstanding; liquidation preference of \$573,424 and \$553,260, as of December 31, 2008 and June 30, 2008, respectively		5
Common stock; \$0.0001 par value; 200,000,000 shares authorized; 45,663,178 and 37,518,178 shares issued and outstanding as of December 31, 2008 and June 30, 2008, respectively		
Additional paid-in capital		32,1

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Accumulated deficit	(33,2
Total shareholders' equity deficiency	( 5
Total liabilities and shareholders' equity deficiency	\$ 1,2

See notes to the condensed consolidated financial statements.

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VYTA CORP AND SUBSIDIARIES  
Condensed Consolidated Statements of Operations  
Three And Six Months Ended December 31, 2008 and 2007  
(Unaudited)

	Three Months Ended December 31,		20
	2008	2007	
Sales	\$ 3,300	\$ -	\$
Cost of sales	-	-	
	3,300	-	
General and administrative expense	( 368,686)	( 173,209)	( 6
Loss from operations	( 365,386)	( 173,209)	( 6
Other income (expense):			
Interest income	-	10	
Interest expense	( 23,538)	-	(
Gain on sale of investment in unconsolidated investee (Note 3)	-	164,234	
Equity losses of unconsolidated investees (Note 3)	( 33,440)	( 286,769)	( 1
Net loss	( 422,364)	( 295,734)	( 8
Dividends on Series A preferred stock (Note 5)	( 10,082)	( 9,452)	(

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Net loss applicable to common shareholders	\$ ( 432,446) =====	\$ ( 305,186) =====	\$ ( 8 =====
Net loss per common share, basic and diluted (Note 1)	\$ ( 0.01) =====	\$ ( 0.01) =====	\$ ( =====
Weighted average number of common shares outstanding (Note 1)	45,372,961 =====	33,912,454 =====	44,2 =====

See notes to the condensed consolidated financial statements.

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VYTA CORP AND SUBSIDIARIES  
Condensed Consolidated Statements of Comprehensive Loss  
Three And Six Months Ended December 31, 2008 and 2007  
(Unaudited)

	Three Months Ended December 31,		2008
	2008	2007	
Net loss	\$ ( 422,364)	\$ ( 295,734)	\$ ( 866,88
Change in foreign currency translation	-	( 10,340)	
Comprehensive loss	\$ ( 432,446) =====	\$ ( 306,074) =====	\$ ( 887,05 =====

See notes to the condensed consolidated financial statements.

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VYTA CORP AND SUBSIDIARIES  
Condensed Consolidated Statement of Changes in Shareholders' Equity Def  
Six Months Ended December 31, 2008  
(Unaudited)

	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID IN CAPITAL
	SHARES	DOLLARS	SHARES	DOLLARS	
	-----	-----	-----	-----	-----
Balances, July 1, 2008	500,000	\$ 553,260	37,518,178	\$ 3,752	\$ 31,567,86
Common stock issued for cash	-	-	1,995,000	200	215,30
Common stock issued for services	-	-	150,000	15	17,53
Common stock issued in exchange for return of warrants, related party	-	-	6,000,000	600	(60
Adjustments upon consolidation of former equity investee (Note 2)	-	-	-	-	413,06
Net loss	-	-	-	-	
Accumulated dividends on					

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Series A preferred stock	-	20,164	-	-	( 20,164)
	-----	-----	-----	-----	-----
Balances, December 31, 2008	500,000	\$ 573,424	45,663,178	\$ 4,567	\$ 32,192,99
	=====	=====	=====	=====	=====

See notes to the condensed consolidated financial statements.

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VYTA CORP AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows  
For the Six Months Ended December 31, 2008 and 2007  
(Unaudited)

Cash flows from operating activities:

Cash flows from operating activities:  
Net loss

Adjustments to reconcile net loss to net cash used in operating activities:

- Consulting expense
- Depreciation and amortization expense
- Common stock issued for services
- Equity in net losses of unconsolidated investees
- Gain on sale of investment in unconsolidated investee
- Changes in operating assets and liabilities, net of business acquisition:
  - Decrease in accounts receivable
  - Increase in inventory
  - (Increase) decrease in prepaid expenses
  - Increase (decrease) in accounts payable and accrued expenses

Total adjustments

Net cash used in operating activities

Cash flows from investing activities:  
Sale of marketable securities



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Increase in notes and advances receivable, unconsolidated investee	(
Net cash used in investing activities	(
Cash flows from financing activities:	
Bank overdraft	(
Common stock issued for cash	
Proceeds from advance payable	
Payment of advance payable	(
Net cash provided by financing activities	
Net decrease in cash and cash equivalents	(
Cash and cash equivalents, beginning	
Cash and cash equivalents, ending	\$
Supplemental disclosure of non-cash investing activities:	
Net assets acquired in BioAgra acquisition	\$
Sale of investment in unconsolidated investee:	
Receivable	
Investment in unconsolidated investee	
Reduction in cumulative translation adjustment	
Gain on sale	

See notes to the condensed consolidated financial statements.

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VYTA CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007  
(Unaudited)

1. BASIS OF PRESENTATION, MANAGEMENT'S PLAN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION:

Presentation of Interim Information:

The accompanying unaudited condensed consolidated financial statements include the accounts of Vyta Corp, a Nevada corporation, its wholly-owned subsidiaries, NanoPierce Connection Systems, Inc., a Nevada corporation (NCOS), and ExypnoTech, LLC (ET LLC), a Colorado limited liability company (collectively referred to as the "Company"). The Company has two investments which are accounted for using the equity method of accounting. These equity method investments consist of BioAgra, LLC (BioAgra) through October 31, 2008 and through December 27, 2007, ExypnoTech, GmbH (EPT) (Note 3). The Company's equity investees, EPT and BioAgra, operate in two segments, the RFID industry and the animal feed industry, respectfully. All significant intercompany accounts and transactions have been eliminated in consolidation.

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On December 27, 2007, the Company sold its 49% equity interest in EPT to TagStar, GmbH (TagStar), the 51% equity interest owner of EPT, for cash of \$250,000 (Note 3).

On September 15, 2008, the Company filed collection and foreclosure proceedings against BioAgra in connection with the secured promissory notes it holds from BioAgra (Notes 2 and 3). On October 31, 2008, the Company acquired the remaining 50% equity interest in BioAgra and as a result owns 100% of the equity in BioAgra (Note 4). Subsequently, the Company has voluntarily dismissed the collection and foreclosure proceedings.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements include all material adjustments, including all normal and recurring adjustments, considered necessary to present fairly the financial position and operating results of the Company for the periods presented. The financial statements and notes are presented as permitted by Form 10-Q, and do not contain certain information included in the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2008. It is the Company's opinion that when the interim financial statements are read in conjunction with the June 30, 2008 Annual Report on Form 10-KSB, the disclosures are adequate to make the information presented not misleading. Interim results are not necessarily indicative of results for a full year or any future period.

### MANAGEMENT'S PLANS:

In the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2008, the Report of the Independent Registered Public Accounting Firm includes an explanatory paragraph that describes substantial doubt about the Company's ability to continue as a going concern. The Company's interim financial statements for the six months ended December 31, 2008 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company reported a net loss of \$866,886 and a net loss applicable to common shareholders of \$887,050 for the six months ended December 31, 2008 (\$422,364 and \$432,446 for the three months ended December 31, 2008), and an accumulated deficit of \$33,295,358 as of December 31, 2008. The Company has not recognized any revenues from its business operations.

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VYTA CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007  
(Unaudited)

During the 2009 fiscal year, the Company has continued its efforts to assist BioAgra with the continuing development of its sales, nationally and internationally in other animal feed markets, such as the equine and the swine markets. The Company intends to continue to raise funds to support the efforts through the sale of its equity securities.

Currently, the Company does not have a revolving loan agreement with any financial institution, nor can the Company provide any assurance it will be able to enter into any such agreement in the future, or be able to raise funds through a further issuance of debt or equity in the Company.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not contain any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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In addition, the United States is experiencing severe instability in the commercial and investment banking systems which is likely to continue to have far-reaching effects on the economic activity in the country for an indeterminable period. The long-term impact on the United States economy and the Company's operating activities and ability to raise capital cannot be predicted at this time, but may be substantial.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### REVENUE RECOGNITION:

Revenues from the sales of product are recognized at time of shipment. Revenues are deferred if significant future obligations are to be fulfilled or if collection is not probable.

Management reviews trade receivables on an ongoing basis to determine if any receivables will potentially be uncollectible. The Company includes trade receivable balances that are determined to be uncollectible in an overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

#### INVENTORY

Inventories are stated at cost. Cost is determined using the first in, first out (FIFO) method. Inventories consisted of the following at December 31, 2008:

Finished goods	\$ 58,817
Raw Materials	\$ 50,132
	-----
	\$109,009
	=====

#### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided by use of the accelerated and straight-line methods over the estimated useful lives of the related assets. The estimated useful lives range from five to ten years.

Repairs and maintenance are charged to operations as incurred. Major renewals and betterments that extend the useful lives of property and equipment are capitalized.

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VYTA CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007  
(Unaudited)

#### STOCK-BASED COMPENSATION:

The Company accounts for stock-based compensation in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 123 - revised 2004 ("SFAS 123R"), SHARE-BASED PAYMENT. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company did not grant any options during the six months ended December 31, 2008 and 2007.

#### LOSS PER SHARE:

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Basic loss per share of common stock is computed based on the average number of common shares outstanding during the year. Stock options and warrants are not considered in the calculation, as the impact of the potential common shares (5,754,844 shares at December 31, 2008 and 14,859,844 shares at December 31, 2007) would be to decrease loss per share (anti-dilutive). Therefore, diluted loss per share is equivalent to basic loss per share.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

In September 2006, the FASB issued SFAS No. 157, FAIR VALUE MEASUREMENTS ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 was effective for the Company on July 1, 2008 for all financial assets and liabilities. For all nonfinancial assets and liabilities, SFAS 157 is effective for the Company on July 1, 2009. As it relates to the Company's financial assets and liabilities, the adoption of SFAS 157 did not have a material impact on the Company's consolidated financial statements. The Company is still in the process of evaluating the impact that SFAS 157 will have on its nonfinancial assets and liabilities.

In February 2007, the FASB issued SFAS No. 159, THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES ("SFAS 159"). SFAS 159 allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value ("fair value option"). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, SFAS 159 specifies that unrealized gains and losses for that instrument be reported in earnings at each subsequent reporting date. SFAS 159 was effective for the Company on July 1, 2008. The Company did not apply the fair value option to any of its outstanding instruments and therefore, SFAS 159 did not have an impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), BUSINESS COMBINATIONS, ("SFAS No. 141R"). SFAS No. 141R will change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R will also change the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing GAAP until July 1, 2009. The Company's management expects SFAS No. 141R will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

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VYTA CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007  
(Unaudited)

In December 2007, the FASB issued SFAS No. 160, NONCONTROLLING INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS--AN AMENDMENT OF ARB NO. 51, OR SFAS NO. 160. SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Management believes that SFAS 160 will not have a material

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impact on the Company's financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161 DISCLOSURES ABOUT DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 161 requires additional disclosure related to derivatives instruments and hedging activities. The provisions of SFAS No. 161 are effective as of July 1, 2009 and the Company is currently evaluating the impact of adoption.

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1 "ACCOUNTING FOR CONVERTIBLE DEBT INSTRUMENTS THAT MAY BE SETTLED IN CASH UPON CONVERSION (INCLUDING PARTIAL CASH SETTLEMENT)" (FSP APB 14-1). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis and will be adopted by the Company in the first quarter of fiscal year 2009. The Company does not expect the adoption of FSP APB 14-1 to have a material effect on its results of operations and financial condition.

### 2. NOTES AND ADVANCES RECEIVABLE -CONSOLIDATED INVESTEE:

Through June 30, 2008, the Company loaned \$3,790,591 to BioAgra through a series of secured, 7.5% promissory notes, some of which were due at various dates through October 31, 2006 and some did not provide for scheduled payments. The funds were loaned to facilitate BioAgra's completion of its first production line and to support operations. The promissory notes are collateralized by all BioAgra assets. Additionally, the promissory notes are to be paid in full prior to any distributions being made to the members of the joint venture.

On July 14, 2008, BioAgra executed a fourth 7.5% promissory note for \$195,164, with BioAgra with the same terms as above, but the note did not provide for scheduled payments. During the six months ended December 31, 2008, the Company advanced an additional \$125,213 in funds to BioAgra.

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VYTA CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007  
(Unaudited)

The Company is not accruing interest on these notes receivable, as they are currently in default and non-performing. Upon consolidation of BioAgra, accrued interest of \$413,064 payable to the Company as of June 30, 2008, was adjusted to Additional Paid In Capital.

The notes and advances receivable were reduced to \$0 at June 30, 2008 by applying the losses of BioAgra (Note 4). The losses of BioAgra for the year ended June 30, 2008 were in excess of the carrying value of the notes by \$173,153. This amount was recorded as an Obligation to unconsolidated investee in the accompanying condensed consolidated balance sheet. During the period of July 1, 2008 through October 31, 2008, the losses of BioAgra were in excess of the carrying value of the notes by \$168,485. The losses of BioAgra for the six months ended December 31, 2008 were \$548,188 (\$294,528 for the three months ended December 31, 2008). After November 1, 2008, the Company began consolidating BioAgra and the notes and advances were treated as intercompany accounts and were eliminated in consolidation. (Note 4.)

### 3. INVESTMENTS IN UNCONSOLIDATED INVESTEE:

INVESTMENT IN EPT:

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On December 27, 2007, the Company executed a Share Purchase Agreement with TagStar, GmbH, the holder of the 51% equity interest in EPT, pursuant to which the Company sold its 49% equity interest to TagStar for cash of \$250,000. The Company recorded a receivable at December 31, 2007, and received the funds on January 2, 2008. The Company recorded a gain of \$164,234 in connection with the sale of the equity interest in EPT.

During the period from July 1, 2007 through December 27, 2007, EPT recognized revenues of \$2,158,689 and expenses of \$2,152,831 for a net income of \$5,858. During the period from July 1, 2007 through December 27, 2007, the Company's proportionate income was \$2,960.

During the period from October 1, 2007 through December 27, 2007, EPT recognized revenues of \$1,330,057 and expenses of \$1,296,241 for a net income of \$33,816. During the period from October 1, 2007 through December 27, 2007, the Company's proportionate income was \$16,659.

#### 4. INVESTMENT IN CONSOLIDATED INVESTEE:

##### INVESTMENT IN BIOAGRA

Prior to October 31, 2008, the Company had a 50% equity interest in the joint venture, BioAgra, which manufactures and sells a beta glucan product, YBG-2000 also known as AgraStim(TM), which can be used as a replacement for hormone growth steroids and antibiotics in animal feed products such as poultry feed. As of June 30, 2008, BioAgra (a development stage company) had completed construction of a production line; however BioAgra has not yet recognized any significant revenues from product sales. On September 15, 2008, the Company filed collection and foreclosure proceedings against BioAgra. The collection and foreclosure proceedings are directly related to principal and accrued interest of approximately \$4,001,769 in loans advanced to BioAgra, including the \$3,963,982 loaned through a series of secured promissory notes, and an additional \$37,787 for open advances not represented by a promissory note. On October 31, 2008, the Company and BioAgra entered into an Agreement with Justin Holdings, Inc. ("Justin Holdings") and Neal Bartoletta ("Mr. Bartoletta") to transfer the 50% equity interest in BioAgra held by Justin Holdings to the Company.

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VYTA CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007  
(Unaudited)

As a result of the transfer, the Company now owns 100% of the equity in BioAgra. Prior to the transfer of Justin Holdings' equity interest in BioAgra, the Company had accounted for its interest using the equity method. As a result of the transfer, BioAgra has become a wholly-owned subsidiary of the Company and starting November 1, 2008, the Company has begun consolidating BioAgra. As a result of the Company's acquisition of the 50% equity ownership of Justin Holdings, Inc. the Company has voluntarily dismissed the aforementioned collection and foreclosure proceedings.

In exchange for the 50% equity interest in BioAgra, Mr. Bartoletta will receive a monthly payment of \$6,000, with payments commencing on the first of the month immediately following the closing and continuing for a period of sixty (60) months from the closing. Mr. Bartoletta has agreed to serve as a consultant to BioAgra for a period of five (5) years from the closing date, and he is to be available to BioAgra on an as needed basis, for up to a maximum of ten (10) hours per week, to provide advice to, and consult with, BioAgra concerning its

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business and relationship with its employees, contractors, vendors and customers. The payments, net of a discount, were recorded as a consulting obligation on the consolidated balance sheet.

The purchase price has been calculated discounting the \$6,000 monthly payments described above, using an interest rate of 15% (estimated to be the cost of capital for BioAgra). A preliminary allocation of the purchase price has been made by the Company among the specific assets and liabilities acquired, as well as among intangible assets identified as acquired by the Company. The purchase price allocation is not considered final as of the date of this report, as management is still reviewing all of the underlying assumptions and calculations used in the allocation. However, management believes the final purchase price allocation will not be materially different than that presented herein.

The values allocated to the assets and liabilities acquired were as follows:

Current assets	\$	59,000
Property and equipment		165,000
Leased property under capital lease		406,000
Consulting agreement (a)		187,000
Accounts payable and accrued expenses		(90,000)
Lease obligation		(472,000)
		-----
Total allocated purchase price	\$	255,000
		=====

- (a) The excess of the purchase price over net liabilities assumed was allocated to the consulting agreement. This amount was expensed as management expects to receive minimal, if any, benefit from such agreement.

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VYTA CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007  
(Unaudited)

Had the acquisition of the remaining 50% of BioAgra occurred on July 1, 2008, the consolidated unaudited pro forma results of operations for the Company would have reflected net sales of \$18,681, loss from operations of \$(819,810), net loss of \$(866,886) or \$(0.02) per common share for the six months ended December 31, 2008. Had the acquisition of the remaining 50% of BioAgra occurred on July 1, 2007, the consolidated unaudited pro forma results of operations for the Company would have reflected net sales of \$83,255, loss from operations of \$(989,511), net loss of \$(822,307) or \$(0.03) per common share for the six months ended December 31, 2007. Such amounts are based upon the estimates and assumptions set forth herein. These unaudited pro forma financial results do not purport to be indicative of the results which actually would have been obtained had the purchase been effected on the dates indicated or of the results which may be obtained in the future. The pro forma adjustments are based on estimates, available information and certain assumptions and may be revised as additional information becomes available.

Justin Holdings is to receive ten percent (10%) of profits generated by BioAgra, until a maximum aggregate payment to Justin Holdings of \$500,000 has been paid. The payments are to be made on an annual basis.

The terms of the original joint venture provided for the Company to share in 50% of joint venture net income, if any, or net losses. Prior to October 31, 2008, the Company accounted for its investment in BioAgra as an equity method investment. Net losses incurred by BioAgra exceeded the underlying equity

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attributed to BioAgra's other joint venture investor. As a result, the excess of the losses attributable to the other joint venture investor have been charged to the Company.

Financial information for BioAgra for the period from October 1, 2008 through October 31, 2008 and for the three months ended December 31, 2007 and for the period from July 1, 2008 through October 31, 2008 and for the six months ended December 31, 2007, is as follows:

	OCTOBER 1, 2008 THROUGH OCTOBER 31, 2008 -----	THREE MONTHS ENDED DECEMBER 31, 2007 -----	JULY 1, 2008 THROUGH OCTOBER 31, 2008 -----	SI DECEMB -----
Revenues	\$ 3,375	\$ 62,828	\$ 15,381	\$
Expenses	(61,396)	(366,227)	(302,481)	
Net loss	\$ (58,021) =====	(303,399) =====	\$ (287,100) =====	\$ =====

### 5. ADVANCES PAYABLES:

#### RELATED PARTIES

At December 31, 2008, the Company owes its majority shareholder \$35,780 for advances. This amount is unsecured, non-interest bearing and is due on demand. During the year ended June 30, 2008, the majority shareholder advanced \$39,500. During the six months ended December 31, 2008, the majority shareholder advanced an additional \$9,780 and the Company made payments of \$18,500 against the advances payable.

At December 31, 2008, the Company owes Mr. Metzinger, an officer and director of the Company, \$5,337 for advances. This amount is unsecured, non-interest bearing and is due on demand.

#### UNRELATED THIRD PARTY

On September 9, 2008, an unrelated third party advanced the Company \$100,000 for operations. This amount is unsecured, non-interest bearing and is due on demand

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VYTA CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007  
(Unaudited)

### 6. LEASE OBLIGATION:

BioAgra has entered into a lease with the Liberty County Industrial Development for a plant facility. The lease has a term of ten years and provides for a buy-out provision in the tenth year of the lease. The cost of the buy-out is \$500,000. The lease requires monthly rent payments of \$12,000.

As of December 31, 2008, the total amount of assets recorded under capital leases was approximately \$1,079,000, and accumulated amortization related to those assets totaled approximately \$275,000.

Future minimum lease payments under the leases are as follows:



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YEAR ENDING JUNE 30, -----	AMOUNT -----
2009	\$ 72,000
2010	144,000
2011	144,000
2012	144,000
2013	144,000
Thereafter	744,000
	-----
Total minimum obligations	1,392,000
Less amount representing interest	(463,026)
	-----
	928,974
Less current portion	(53,511)
	-----
Long-term portion	\$ 875,463
	=====

7. SHAREHOLDERS' EQUITY DEFICIENCY:

PREFERRED STOCK:

In February 2007, the Company sold 500,000 shares of Series A nonconvertible preferred stock ("Series A") for \$500,000 cash to Arizcan Properties, Ltd. (Arizcan), the majority shareholder of the Company. Arizcan had advanced the funds to the Company, prior to the issuance of the shares. The shares provide that when voting as a single class, the shares have the votes and the voting power that at all times is greater by 1% than the combined votes and voting power of all other classes of securities entitled to vote on any matter. As a result of the issuance, Arizcan acquired approximately 51% of the voting power of the Company. The Company has a right, solely at the Company's discretion, to redeem the shares in 2017 at 130% of deemed par value.

The holder of the Series A is entitled to a dividend equal to 8% per annum of the deemed par value (\$1.00 per share). Accumulated dividends for the period from Series A issuance (February 2007) through December 31, 2008, were \$73,425, (\$20,164 and \$18,804 during the six months ended December 31, 2008 and 2007, respectively) which have been recorded as an increase to net loss per common shareholder. Also, the holder is entitled to a liquidation preference of the deemed par value for each outstanding share and any accrued but unpaid dividends upon the liquidation of the Company.

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VYTA CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007  
(Unaudited)

COMMON STOCK:

2008 FISCAL YEAR

Between July 1, 2008 and December 31, 2008, the Company issued an aggregate of 1,995,000 shares of its restricted common stock for \$215,500 cash. The shares

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were sold for prices that range from \$0.09 to \$0.15 per share (based upon an approximate 55% discount from the closing market price at the time of sale, ranging from \$0.06 to \$0.17 per share on the dates of the transactions).

On August 22, 2008, the Company issued an aggregate of 150,000 shares of its restricted common stock as payment for services worth \$17,550. The shares were issued for \$0.117 per share, the closing market at the time of issuance.

On July 15, 2008, the Company issued 6,000,000 shares of its restricted common stock upon the return of warrants exercisable for 9,000,000 shares by its majority shareholder.

### STOCK OPTIONS:

The Company has two stock option plans which permit the grant of shares to attract, retain and motivate employees, directors and consultants of up to 2,863,000 shares of common stock. Options are generally granted with an exercise price equal to the Company's market price of its common stock on the date of the grant and with vesting rates, as determined by the Board of Directors. All options outstanding at July 1, 2008 and December 31, 2008 are fully-vested and exercisable. The aggregate intrinsic value of outstanding fully-vested options as of December 31, 2008 was approximately \$155.

The Company did not grant any options during the six months ended December 31, 2008 and 2007.

The expected term of stock options represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The expected volatility is based on the historical price volatility of the Company's common stock. The risk-free interest rate represents the U.S. Treasury bill rate for the expected term of the related stock options. The dividend yield represents our anticipated cash dividend over the expected term of the stock options.

A summary of the stock option activity for the six months ended December 31, 2008 is as follows:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Lif
	-----	-----	-----
Outstanding at July 1, 2008	2,643,127	\$ 3.00	2.86 years
Granted	-	-	-
Exercised	-	-	-
Expired	-	-	-
	-----	-----	-----
Outstanding at December 31, 2008	2,643,127	\$ 3.00	2.30 years
	=====	=====	=====
Exercisable at December 31, 2008	2,643,127	\$ 3.00	2.30 years
	=====	=====	=====

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VYTA CORP AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007  
 (Unaudited)

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### 8. COMMITMENTS AND CONTINGENCIES

#### JUDGEMENT:

On January 15, 2009, the Company entered a Confession of Judgment in the principal amount of \$38,236. The Judgment was entered into to settle the outstanding funds owed to Brookfield Republic Plaza under the Company's lease for its office space. The Judgment accrues interest at 9% per annum.

#### FINANCING AGREEMENT SUIT:

The Company is a plaintiff and counter-claim defendant in a suit pending in the United States District Court for the Southern District of New York (the "District Court"). In this suit, the Company filed claims for securities fraud, common-law fraud, and breach of contract against the defendants. One defendant, Harvest Court, LLC ("Harvest Court"), has counterclaimed for alleged violations of the federal securities laws. In January 2008 the Court granted summary judgment against the Company on all of its claims, which the Company intends to appeal when the judgment becomes final. The Court also dismissed certain counterclaims against the Company. The Company intends to vigorously defend itself against the remaining claims. In a disclosure statement filed by Harvest Court, it set forth a damage computation of approximately \$4.1 million, as well as other categories of damages, such as out-of-pocket, statutory, punitive, and other for unspecified amounts.

Harvest Court has also sued the Company in New York state court (the "State Court") for breach of contract relating to its failure to issue certain shares of stock allegedly due under a pre-2007 financing agreement. The Company has counterclaimed in this case for fraud. The State Court issued an injunction requiring the company to reserve and set aside a certain amount of stock, which the Company has done. The Company intends to vigorously defend itself and prosecute its counterclaims.

If management believes that a loss arising from these matters is probable and can reasonably be estimated, the Company records the amount of the loss, or the minimum estimated liability when the loss is estimated using a range, and no point within the range is more probable than another. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, management does not believe that a loss from the matters described above is probable, and therefore has not accrued for any asserted damages. Management believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the Company's financial position or overall trends in results of operations. However, litigation is subject to inherent uncertainties, and an unfavorable ruling could result in a material adverse impact on the financial position and results of operations of the period in which the outcome is determined.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained in this Form 10-QSB contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties that could cause actual results to differ materially from the results, financial or otherwise, or other expectations described in such forward-looking statements. Any forward-looking statement or statements speak only as of the date on which such statements were

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made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statements are made or reflect the occurrence of unanticipated events. Therefore, forward-looking statements should not be relied upon as prediction of actual future results.

The independent registered public accounting firm's report on the Company's consolidated financial statements as of June 30, 2008, and for each of the years in the two-year period then ended, includes a "going concern" explanatory paragraph, that describes substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to the factors prompting the explanatory paragraph are discussed below and also in Note 1 to the unaudited quarterly financial statements.

### GENERAL

At December 31, 2008, we had a bank overdraft of \$14,041. We intend to continue to develop the business opportunity presented by BioAgra and the AgriStim product. The development of the business opportunity includes continued marketing efforts and product testing over the next twelve months.

On October 31, 2008, the Company and BioAgra entered into an Agreement with Justin Holdings, Inc. ("Justin Holdings") and Neal Bartoletta ("Mr. Bartoletta") to transfer the 50% equity interest in BioAgra held by Justin Holdings to the Company. As a result of the transfer, the Company now owns 100% of the equity in BioAgra and BioAgra became a wholly-owned subsidiary of the Company.

In the continuance of our business operations we do not intend to purchase or sell any significant assets, and we do not expect a significant change in the number of employees of the Company.

We are dependent on raising additional equity and/or debt to fund any negotiated settlements with our outstanding creditors and meet our ongoing operating expenses. There is no assurance that we will be able to raise the necessary equity and/or debt that we will need to be able to negotiate acceptable settlements with our outstanding creditors or fund our ongoing operating expenses. We cannot make any assurances that we will be able to raise funds through such activities.

### RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2008 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2007

During the three months ended December 31, 2008, we had sales of \$3,300 through our subsidiary BioAgra's sale of its YBG-2000 product. During the three months ended December 31, 2007, we did not have any revenues from operations. We did not recognize any costs with these sales, as these were finished goods that had been produced and expensed during the prior year.

General and administrative expenses during the three months ended December 31, 2008, were \$368,686 compared to \$173,209 for the three months ended December 31, 2007. The increase of \$195,477 is mainly attributable to an increase of \$187,000 in consulting expenses as a result of the consulting obligation that is part of the Agreement to purchase the remaining equity of BioAgra. The additional

\$8,477 increase in general and administrative expenses is a result of the change in accounting, from the equity method to the consolidation method, for the

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investment in BioAgra.

During the three months ended December 31, 2008, we recognized a net loss of \$422,364 compared to a net loss of \$295,734 during the three months ended December 31, 2007. The \$126,630 increase is primarily a result of the \$253,329 decrease in equity losses of unconsolidated investees offset by the \$23,538 increase in interest expense and the \$195,477 increase in general and administrative expenses. In addition, we recognized a gain on sale of investment in 2007 that we did not recognize in 2008.

We recorded a net loss applicable to common shareholders of \$432,446 during the three months ended December 31, 2008 compared to \$305,186 during the three months ended December 31, 2007. The increase of \$127,260 was a result of the \$253,329 decrease in equity losses of unconsolidated investees and offset by the \$195,477 increase in general and administrative expenses and the \$630 increase in the accumulated dividends recognized in connection with the outstanding Series A Preferred Stock and the increase in general and administrative expenses.

FOR THE SIX MONTHS ENDED DECEMBER 31, 2008 COMPARED TO THE SIX MONTHS ENDED DECEMBER 31, 2007

During the six months ended December 31, 2008, we had sales of \$3,300 through our subsidiary BioAgra's sale of its YBG-2000 product. During the six months ended December 31, 2007, we did not have any revenues from operations. We did not recognize any costs with these sales, as these were finished goods that had been produced and expensed during the prior year.

General and administrative expenses during the six months ended December 31, 2008, were \$647,924 compared to \$318,957 for the six months ended December 31, 2007. The increase of \$328,967 is mainly attributable to an increase of \$187,000 in consulting expenses as a result of the consulting obligation that is part of the Agreement to purchase the remaining equity of BioAgra. The additional \$141,967 increase in general and administrative expenses is a result of the change in accounting, from the equity method to the consolidation method, for the investment in BioAgra.

During the six months ended December 31, 2008, we recognized a net loss of \$866,886 compared to a net loss of \$822,307 during the six months ended December 31, 2007. The \$44,579 increase is primarily a result of the \$468,870 decrease in equity losses of unconsolidated investees offset by the \$328,967 increase in general and administrative expenses, the \$23,538 increase in interest expense and the \$164,234 gain on sale of investment in unconsolidated investee recorded in 2007.

We recorded a net loss applicable to common shareholders of \$887,050 during the six months ended December 31, 2008 compared to \$841,211 during the six months ended December 31, 2007. The increase of \$45,839 was a result of the \$468,870 decrease in equity losses of unconsolidated investees and offset by the \$328,967 increase in year end administrative expenses, the \$23,538 increase in interest expense and the \$164,234 gain on sale of investment recorded in 2007 and the \$1,260 increase in the accumulated dividends recognized in connection with the outstanding Series A Preferred Stock and the increase in general and administrative expenses.

### LIQUIDITY AND FINANCIAL CONDITION

Net cash used in operating activities during the six months ended December 31, 2008 was \$128,723, compared to net cash used in operating activities during the six months ended December 31, 2007 of \$359,502. During the six months ended December 31, 2008, the net cash used represented a net loss of \$866,886, adjusted for certain non-cash items consisting of consulting expenses of

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\$187,000, depreciation and amortization expense of \$52,564, common stock issued for services of \$17,550 and equity in losses of unconsolidated investees of \$198,724.

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During the six months ended December 31, 2007, the net cash used represented a net loss of \$822,307, adjusted for certain non-cash items consisting of depreciation expense of \$2,306 and equity in losses of unconsolidated investees of \$667,594.

During the six months ended December 31, 2008, we raised \$215,500 cash through the sale of 1,995,000 shares of restricted common stock.

During the six months ended December 31, 2007, we received \$579,500 cash, through the sale of 3,863,333 shares of restricted common stock.

During the year ended June 30, 2008, the majority shareholder advanced \$39,500. During the six months ended December 31, 2008, the majority shareholder advanced an additional \$9,780 and the Company made payments of \$18,500 against the advances payable. In addition, an officer and director of the Company advanced \$5,377 to the Company.

During the six months ended December 31, 2008, an unrelated third party advanced \$100,000.

Through June 30, 2008, the Company loaned \$3,790,591 to BioAgra through a series of secured, 7.5% promissory notes, some of which were due at various dates through October 31, 2006 and some did not provide for scheduled payments. The funds were loaned to facilitate BioAgra's completion of its first production line and to support operations. The promissory notes are collateralized by all BioAgra assets.

On July 14, 2008, BioAgra executed a fourth 7.5% promissory note for \$195,164, with BioAgra with the same terms as above, but the note did not provide for scheduled payments. During the six months ended December 31, 2008, the Company advanced an additional \$125,213 to BioAgra.

During the 2009 fiscal year, we intend to continue our efforts to aid BioAgra with the continuing development of its sales, nationally and internationally in other animal feed markets, such as the equine and the swine markets.

In addition, the United States is experiencing severe instability in the commercial and investment banking systems which is likely to continue to have far-reaching effects on the economic activity in the country for an indeterminable period. The long-term impact on the United States economy and the Company's operating activities and ability to raise capital cannot be predicted at this time, but may be substantial.

To the extent our operations are not sufficient to fund our capital requirements; we may enter into a revolving loan agreement with financial institutions or attempt to raise capital through the sale of additional capital stock or through the issuance of debt. At the present time we do not have a revolving loan agreement with any financial institution nor can we provide any assurance that we will be able to enter into any such agreement in the future or be able to raise funds through the further issuance of debt or equity.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, FAIR VALUE MEASUREMENTS ("SFAS 157"), which defines fair value, establishes a framework for measuring fair

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value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 was effective for the Company on July 1, 2008 for all financial assets and liabilities. For all nonfinancial assets and liabilities, SFAS 157 is effective for the Company on July 1, 2009. As it relates to the Company's financial assets and liabilities, the adoption of SFAS 157 did not have a material impact on the Company's consolidated financial statements. The Company is still in the process of evaluating the impact that SFAS 157 will have on its nonfinancial assets and liabilities.

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In February 2007, the FASB issued SFAS No. 159, THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES ("SFAS 159"). SFAS 159 allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value ("fair value option"). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, SFAS 159 specifies that unrealized gains and losses for that instrument be reported in earnings at each subsequent reporting date. SFAS 159 was effective for the Company on July 1, 2008. The Company did not apply the fair value option to any of its outstanding instruments and therefore, SFAS 159 did not have an impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), BUSINESS COMBINATIONS, ("SFAS No. 141R"). SFAS No. 141R will change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R will also change the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing GAAP until July 1, 2009. The Company's management expects SFAS No. 141R will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

In December 2007, the FASB issued SFAS No. 160, NONCONTROLLING INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS--AN AMENDMENT OF ARB NO. 51, OR SFAS NO. 160. SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Management believes that SFAS 160 will not have a material impact on the Company's financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161 DISCLOSURES ABOUT DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 161 requires additional disclosure related to derivatives instruments and hedging activities. The provisions of SFAS No. 161 are effective as of July 1, 2009 and the Company is currently evaluating the impact of adoption.

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1 "ACCOUNTING FOR CONVERTIBLE DEBT INSTRUMENTS THAT MAY BE SETTLED IN CASH UPON CONVERSION (INCLUDING PARTIAL CASH SETTLEMENT)" (FSP APB 14-1). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive

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basis and will be adopted by the Company in the first quarter of fiscal year 2009. The Company does not expect the adoption of FSP APB 14-1 to have a material effect on its results of operations and financial condition.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - NOT APPLICABLE

ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer/Acting Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2008. Based on that evaluation, the Chief Executive Officer/Acting Chief Financial Officer concluded that, because of the material weakness in internal control over financial reporting described below, the Company's disclosure controls and procedures were not effective as of December 31, 2008.

ITEM 4T. INTERNAL CONTROLS AND PROCEDURES

MANAGEMENT'S QUARTERLY REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Our Chief Executive Officer/Acting Chief Financial Officer conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework").

Based on this evaluation, management has concluded that our internal control over financial reporting was not effective as of December 31, 2008. Our principal Chief Executive Officer/Acting Chief Financial Officer concluded we have a material weakness in our ability to produce financial statements free from material misstatements. Management reported a material weakness resulting from the combination of the following significant deficiencies:

- a lack of segregation of duties in accounting and financial reporting activities; and
- a lack of a sufficient number of qualified accounting personnel; and
- a lack of documentation and review of financial information by accounting personnel with direct oversight responsibility.

Our Chief Executive Officer has also served as our Chief Financial Officer since February 2007. We believe that the lack of a full-time Chief Financial Officer has resulted in a significant deficiency in internal controls over financial reporting due to the lack of qualified accounting personnel with sufficient time to regularly and adequately review complex, nonrecurring transactions.

In addition, the Company employs only one individual that is responsible for the processing of all recurring transactions. While management is actively involved in the daily activities of the Company, including the review of transactions, it is difficult to adequately segregate accounting duties within the Company in a manner to prevent a material weakness in internal controls over



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financial reporting.

Subsequent to the discovery of the material weakness in internal control over financial reporting described above and beginning in the fiscal quarter ending September 30, 2007, we initiated and plan to undertake changes to our internal control over financial reporting to remediate the aforementioned deficiency and to strengthen our internal control processes, including the seeking of

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additional accounting staff and/or the consultation with outside resources as we deem appropriate. While the costs of remediation are unknown at this time, we expect that the costs may exceed \$300,000, which would include the hiring of a new Chief Financial Officer and, in the interim, the contracting of accounting staff and/or the consultation with outside resources. Our ability to initiate and undertake changes is confined by our financial resources.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in internal control over financial reporting that occurred during the last fiscal quarter covered by this report that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

### PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS - NONE.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company made the following unregistered sales of its securities from October 1, 2008 to December 31, 2008.

DATE OF SALE	TITLE OF SECURITIES	NO. OF SHARES	CONSIDERATION	
10/2/08	Common stock	400,000	\$36,000	Affil
11/20/08	Common stock	500,000	\$47,500	Affil

### Exemption From Registration Claimed

All of the sales by the Company of its unregistered securities were made by the Company in reliance upon Section 4(2) of the Act. The affiliate listed above that purchased the unregistered securities was known to the Company and its management, through pre-existing business relationships. The purchaser was provided access to all material information, which they requested, and all information necessary to verify such information and was afforded access to management of the Company in connection with the purchases. The purchaser of the unregistered securities acquired such securities for investment and not with a view toward distribution, acknowledging such intent to the Company. All certificates or agreements representing such securities that were issued contained restrictive legends, prohibiting further transfer of the certificates or agreements representing such securities, without such securities either being first registered or otherwise exempt from registration in any further resale or disposition.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES - NONE.

